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## **INTRODUCTION**

The Office of Internal Audit performed an audit of the Highland Park District, Wayne County FIA for the period October 1, 1997 through January 28, 1998. The objectives of our audit were to determine if internal controls in place at the district office provide reasonable assurance that departmental assets are safeguarded, transactions are properly recorded on a timely basis, and policies and procedures of the Michigan Family Independence Agency (FIA) are being followed. The Highland Park District had 77 full time equated positions (FTE's) at the time of our review. The Highland Park District provided assistance to an average 10,803 recipients per month during FY 1996, with total assistance payments of \$22,198,523 during that year.

## **SCOPE**

Our audit was performed in accordance with Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors. We obtained descriptions of significant systems operating at the Highland Park District, documented those systems, and evaluated controls in each system. We tested the systems for compliance, where feasible. We included the following systems:

Client Processing	CIS
Cash Disbursements	Cash Receipts
General Ledger	Accounts Receivable
Safe & Controlled Documents	IRS Information Security
Telephone Charges	Medical Transportation

## **EXECUTIVE SUMMARY**

Based on our audit, we conclude that the Highland Park District internal controls are generally adequate to provide management with reasonable assurance that assets are safeguarded and transactions are executed in accordance with management's authorization, except in the FIA-849 payment process. We found some instances of noncompliance with FIA policies and procedures, and one weakness in internal controls, which are detailed below.

## **DISTRICT OFFICE RESPONSE**

The management of the Highland Park District has reviewed all findings and recommendations included in this report. They indicated in a memorandum dated March 24, 1998 that they are in general agreement with the report.

## **FINDINGS AND RECOMMENDATIONS - COMPLIANCE**

The following are areas where we found that the Highland Park District was not operating in accordance with FIA policies and procedures that are described in manuals or instructional letters.

### **Mail Opening**

1. The Highland Park District did not have two people working together to open the mail, as required by Accounting Manual Item 403. Having two people opening the mail together helps to ensure that cash and negotiable instruments received in the mail are not lost or stolen prior to being recorded at the local office.

WE RECOMMEND that the Highland Park District have two people work together to open the mail.

FIA-61

2. The Highland Park District Office mail room did not maintain a copy of the Record and Disposition of Checks/Warrants (FIA-61) as required by Accounting Manual 431. Maintaining a copy of the FIA-61 will provide an audit trail for checks and warrants received in the local office.

WE RECOMMEND that the Highland Park District mail room maintain a copy of the FIA-61.

#### Payment Authorization Files

3. The FIA Highland Park District did not maintain a permanent file of Authorization Invoices (FIA-849) in either alphabetical or case number order, as required by Accounting Manual Item 404. Instead the FIA-849's and the ES 440 reports were being maintained in a box in the Office Services area. Maintaining the FIA 849's in either alphabetical or case number order provides an audit trail to easily detect how many emergency payments a client has received, and makes the FIA-849's easy to retrieve if needed at a later date.

WE RECOMMEND that the Highland Park District maintain a permanent file of FIA-849's in either alphabetical or case number order in the fiscal office.

#### Supporting Documentation for Payments

4. The Highland Park District did not maintain a pending file of FIA-849's to be used for the reconciliation process, as required by Accounting Manual Item 404. Maintaining a pending file and reconciling it to the ES-440 Report helps to ensure that FIA-849 payments are accurate and appropriate.

WE RECOMMEND that the Highland Park District maintain a pending file of FIA-849's for reconciliation purposes.

#### FIA-849 Payments

5. The Highland Park District did not properly reconcile all payments listed on the FIA-849 Issuance Report (ES-440) with the FIA-849 and supporting documentation, as required by Accounting Manual Item 413. We noted 40 payments out of the 83 we reviewed on the October, 1997 ES-440 Report had not been reconciled to a FIA-849. An additional 12 payments did not have a vendor invoice or other supporting documentation attached to the FIA 849. Attaching original documentation to the accounting office copy of the the FIA 849 helps to insure that all FIA 849 payments are accurate and appropriate.

WE RECOMMEND that the Highland Park District reconcile all payments listed on the ES-440 Report with the FIA-849's and attached vendor invoices.

WE ALSO RECOMMEND that the Highland Park District attach supporting documentation to the fiscal office copy of the FIA-849.

WE FURTHER RECOMMEND that the Highland Park District review the 52 (40 +12) payments referred to above to determine if they were appropriate.

#### Stamping Documents "PAID"

6. The Highland Park District did not stamp all supporting documents "PAID" when payment was made. The Accounting Manual Items related to each payment type require that supporting documents be stamped "PAID." Stamping supporting documents "PAID" helps prevent duplicate payments.

WE RECOMMEND that the Highland Park District stamp supporting documents "PAID" when payment is made.

#### Knowledge of IRS Security Procedures

7. Mail room staff, and the newly hired Family Independence Specialists (FIS), and Eligibility Specialists(ES) at the Highland Park District were unaware of the proper procedures to follow for confidential information received from the IRS. Family Independence Agency L-Letter 94-1 states that local offices should ensure that their staff understands all aspects of the confidentiality laws. Staff understanding of the laws is necessary to ensure that confidentiality is maintained for all information received from the IRS.

WE RECOMMEND that the Highland Park District familiarize its staff with all aspects of the confidentiality laws for information received from the IRS.

#### **RECOMMENDATION FOR IMPROVED INTERNAL CONTROLS**

The following is an area where we have identified a control weakness at the Highland Park District, and we are recommending a change in procedure to reduce the risk associated with the control weakness.

#### Backup Designated Staff Person

8. The Highland Park District did not have a backup Designated Staff Person (DSP) for IRS Security. The District should have a backup DSP in case information is received on a day when the DSP is out of the office.

WE RECOMMEND that the Highland Park District appoint a backup DSP for IRS information security.